

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA  
INDEPENDENT AUDITORS' REPORTS  
FINANCIAL STATEMENTS  
OTHER INFORMATION  
SCHEDULE OF FINDINGS  
JUNE 30, 2013 AND 2012

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA

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CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA

## OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>EXPIRES</u>
Kent Wenck	Chairman	2016
Mike Fox	Treasurer	2014
Mike O'Neal	Secretary	2016
Neal Rogge	Board Member	2014
Todd Wetherell	Board Member	2016
Brian Lauck	Airport Director	2015
Karen Aduddell	Clerk	Indefinite

# BURKHARDT & DAWSON

## Certified Public Accountants

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### INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Cherokee Aviation Authority

#### Report on the Financial Statements

We have audited the accompanying financial statements of Cherokee Aviation Authority as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also

includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash basis financial position of Cherokee Aviation Authority as of June 30, 2013 and 2012, and the changes in its cash basis financial position for the years then ended in accordance with the basis of accounting described in Note 1.

#### Basis of Accounting

As described in Note 1, the financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

#### Other Matters

##### Other Information

The other information, Management's Discussion and Analysis on pages 4 through 7, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

#### Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 9, 2014 on our consideration of Cherokee Aviation Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Cherokee Aviation Authority's internal control over financial reporting and compliance.

BURKHARDT & DAWSON, CPA's

Burkhardt & Dawson, CPA's  
Certified Public Accountants

January 9, 2014

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Cherokee Aviation Authority provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities of Cherokee Aviation Authority is for the fiscal years ended June 30, 2013 and 2012. We encourage readers to consider this information in conjunction with the Authority's financial statements, which follow.

### 2013 FINANCIAL HIGHLIGHTS

- \* The Authority's operating receipts decreased 10% or approximately \$41,000, from fiscal 2012 to fiscal 2013.
- \* The Authority's operating disbursements increased 2%, or approximately \$7,000, from fiscal 2012 to fiscal 2013.
- \* Cash balance increased 60%, or approximately \$130,000, from June 30, 2012 to June 30, 2013.

### USING THIS ANNUAL REPORT

The Authority has elected to present its financial statements on the cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as the timing for recognizing revenues, expenses and the related assets and liabilities. Under the cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of the cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

The annual report is presented in a format consistent with the presentation of Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the cash basis of accounting.

This discussion and analysis are intended to serve as an introduction to the financial statements. The annual report consists of the financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the financial statements and provides an analytical overview of the Authority's financial activities.

- The Statements of Cash Receipts, Disbursements and Changes in Cash Balance present information on the Authority's operating receipts and disbursements, non-operating receipts and disbursements and whether the Authority's cash basis financial position has improved or deteriorated as a result of the years' activities.
- Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the financial statements.

## FINANCIAL ANALYSIS OF THE AUTHORITY

### *Statements of Cash Receipts, Disbursements and Changes in Cash Balance*

The purpose of the statements is to present the receipts received by the Authority and the disbursements paid by the Authority, both operating and non-operating. The statements also present fiscal snapshots of the cash balance at year end. Over time, readers of the financial statements are able to determine the Authority's cash basis financial position by analyzing the increase and decrease in the Authority's cash balance.

Operating receipts are received for hangar rentals, fuel sales, and tax revenues of the Authority. Operating disbursements are disbursements paid to operate the airport. Non-operating receipts and disbursements are for interest on investments, grant receipts, loan proceeds, insurance proceeds, loan payment including interest, equipment purchases, capital projects, and grant expenses. A summary of cash receipts, disbursements and changes in cash balance for the years ended June 30, 2013 and June 30, 2012 is presented below:

#### CHANGES IN CASH BALANCE

	<u>2013</u>	<u>2012</u>
Operating Receipts:		
Tax Revenues	\$ 91,744	\$ 86,340
Hangar Rent	33,010	17,590
Fuel Sales	261,705	315,082
Land Rent and Other Income	<u>4,179</u>	<u>12,818</u>
TOTAL OPERATING RECEIPTS	<u>\$ 390,638</u>	<u>\$ 431,830</u>
Operating Disbursements:		
Fuel Purchased for Resale	\$ 249,138	\$ 242,899
Contract Services Expense	33,926	33,707
Others	<u>52,635</u>	<u>52,437</u>
TOTAL OPERATING DISBURSEMENTS	<u>\$ 335,699</u>	<u>\$ 329,043</u>
EXCESS OF OPERATING RECEIPTS OVER OPERATING DISBURSEMENTS	<u>\$ 54,939</u>	<u>\$ 102,787</u>

	<u>2013</u>	<u>2012</u>
Non-Operating Receipts (Disbursements):		
Interest on Investments	\$ 2,832	\$ 4,022
Grant Receipts	578,155	106,161
Loan Proceeds	0	300,000
Insurance Proceeds from Hail Damage	0	214,053
Interest Expense	(5,819)	0
Loan Payments	(300,000)	0
Capital Improvements and Related		
Engineering Fees	(9,099)	0
Grant Expenses	(174,688)	(581,729)
Capital Improvements to Repair Hail Damage	0	(210,611)
Equipment Purchases	(7,397)	(820)
Real Estate Taxes Related to Land Acquisition	(8,788)	0
NET NON-OPERATING RECEIPTS (DISBURSEMENTS)	<u>\$ 75,196</u>	<u>\$ (168,924)</u>
CHANGE IN CASH BALANCE	\$ 130,135	\$ (66,137)
CASH BALANCE - BEGINNING OF YEAR	<u>216,971</u>	<u>283,108</u>
CASH BALANCE - END OF YEAR	<u>\$ 347,106</u>	<u>\$ 216,971</u>
Cash Basis Fund Balance:		
Restricted for: Capital Reserve Fund	\$ 202,757	\$ 151,192
Unrestricted	<u>144,349</u>	<u>65,779</u>
TOTAL CASH BASIS FUND BALANCE	<u>\$ 347,106</u>	<u>\$ 216,971</u>

In fiscal year 2013, operating receipts decreased \$41,192, or 10%, from fiscal year 2012. The decrease was primarily a result of a decrease in fuel sales in fiscal year 2013. In fiscal year 2013, operating disbursements increased by \$6,656, or 2%, from fiscal year 2012. The increase in disbursements was primarily due to increases in fuel purchases.

A portion of the Authority's cash balance, \$202,757 (58%), is restricted for a capital reserve fund as required by the agreement with the City of Cherokee and Cherokee County. The remaining cash balance, \$144,349 (42%), is unrestricted and can be used to meet the Authority's obligations as they come due. The restricted cash balance increased \$51,565, or 34% during the year. The increase was due to additional funds set aside for a capital reserve fund. The unrestricted cash balance increased \$78,570, or 119%, during the year due to various changes in grant receipts versus grant expenses.

#### LONG TERM DEBT

At June 30, 2013 and 2012, the Authority had no long term debt outstanding.

#### SHORT TERM DEBT

At June 30, 2013, the Authority had \$-0- in a short-term loan outstanding, a decrease of \$300,000 from June 30, 2012. The loan was repaid when grant revenue was received. Additional information about the Authority's short-term debt is presented in Note 7 to the financial statements.



## ECONOMIC FACTORS

The financial position of the Authority improved in the current fiscal year as reimbursements received for grant projects increased its cash balance. The current condition of the economy in the state continues to be a concern for Authority officials. Some of the realities that may potentially become challenges for the Authority to meet are:

- \* Facilities require constant maintenance and upkeep.
- \* Technology continues to expand and current technology becomes outdated, presenting an ongoing challenge to maintain up to date technology at a reasonable cost.

The Authority anticipates the current fiscal year will be one of transition as it continues to make important decisions regarding the future expansion plans of the Airport.

## CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers and creditors with a general overview of the Authority's finances and to show its accountability for the money it receives. If you have questions about this report or need additional financial information, contact Cherokee Aviation Authority, 1201 South Second Street, Cherokee, Iowa 51012.

## Financial Statements

CHEROKEE AVIATION AUTHORITY  
 CHEROKEE, IOWA  
 STATEMENTS OF CASH RECEIPTS, DISBURSEMENTS  
 AND CHANGES IN CASH BALANCE  
 YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
OPERATING RECEIPTS:		
Tax Revenues	\$ 91,744	\$ 86,340
Hangar Rent	33,010	17,590
Fuel Sales	261,705	315,082
Land Rent and Other Income	<u>4,179</u>	<u>12,818</u>
TOTAL OPERATING RECEIPTS	<u>\$ 390,638</u>	<u>\$ 431,830</u>
OPERATING DISBURSEMENTS:		
Fuel Purchased for Resale	\$ 249,138	\$ 242,899
Bank Charges and Check Printing	96	91
Miscellaneous Fees	727	517
Legal Fees	172	0
Audit Fees	3,580	2,950
Dues, Memberships	324	320
Licenses and Permits	9	9
Travel and Conference Fees	398	250
Lease Expense	100	100
Real Estate Taxes	1,692	0
Grounds and Buildings Maintenance	8,115	12,661
Fuel Tank Maintenance	2,001	520
Contract Service Expense	33,926	33,707
Fuel Commissions	12,617	11,331
Insurance Expense	10,715	10,748
Fuel for Equipment	1,412	1,790
Equipment Maintenance	3,591	4,275
Utilities - Gas	624	534
Electricity	2,973	2,954
Telephone	1,871	1,603
Water	405	398
Internet	309	528
Office Supplies	41	12
Miscellaneous Supplies	270	206
Postage	293	308
Other Expenses	<u>300</u>	<u>332</u>
TOTAL OPERATING DISBURSEMENTS	<u>\$ 335,699</u>	<u>\$ 329,043</u>
EXCESS OF OPERATING RECEIPTS OVER OPERATING DISBURSEMENTS	<u>\$ 54,939</u>	<u>\$ 102,787</u>

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA  
STATEMENTS OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCE  
YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
NON-OPERATING RECEIPTS (DISBURSEMENTS):		
Interest on Investments	\$ 2,832	\$ 4,022
Grant Receipts - Drainage Ditch Project	0	106,161
Grant Receipts - Land and Building Acquisition	550,500	0
Grant Receipts - Overhead Hanger Door Project	27,655	0
Loan Proceeds	0	300,000
Insurance Proceeds from Hail Damage	0	214,053
Interest Expense	(5,819)	0
Loan Payments	(300,000)	0
Capital Improvements and Related Engineering Fees	(9,099)	0
Grant Expenses - Drainage Ditch Project	0	(111,425)
Grant Expenses - Land and Building Acquisition	(140,118)	(470,304)
Grant Expenses - Overhead Hangar Door Project	(34,570)	0
Capital Improvements to Repair Hail Damage	0	(210,611)
Equipment Purchases	(7,397)	(820)
Real Estate Taxes Related to Land Acquisition	(8,788)	0
NET NON-OPERATING RECEIPTS (DISBURSEMENTS)	<u>\$ 75,196</u>	<u>\$ (168,924)</u>
CHANGE IN CASH BALANCE	\$ 130,135	\$ (66,137)
CASH BALANCE - BEGINNING OF YEAR	<u>216,971</u>	<u>283,108</u>
CASH BALANCE - END OF YEAR	<u><u>\$ 347,106</u></u>	<u><u>\$ 216,971</u></u>
CASH BASIS FUND BALANCE:		
Restricted for:		
Capital Reserve Fund	\$ 202,757	\$ 151,192
Unrestricted	<u>144,349</u>	<u>65,779</u>
TOTAL CASH BASIS FUND BALANCE	<u><u>\$ 347,106</u></u>	<u><u>\$ 216,971</u></u>

See accompanying notes to financial statement

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Cherokee Aviation Authority was formed in 2003 pursuant to the provisions of Chapter 28E of the Code of Iowa. The purpose of the Authority is to operate and maintain an airport and hangars in Cherokee County on behalf of the units of government, which are members of the Authority.

The governing body of the Authority is a Board of Directors. The City of Cherokee appoints two Board members who shall be residents of the City of Cherokee, Iowa; and, Cherokee County appoints two Board members who shall be residents of the unincorporated territory of Cherokee County, Iowa. One member of the Board shall be a resident of the unincorporated territory of Cherokee County and selected by the Cherokee Aviation Authority Board with approval by the County Board of Supervisors and the Cherokee City Council. Each member of the Board has one vote.

A. REPORTING ENTITY - For financial reporting purposes, Cherokee Aviation Authority has included all funds, organizations, agencies, boards, commissions and authorities. The Authority has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Authority are such that exclusion would cause the Authority's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Authority to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Authority. The Authority has no component units which meet the Governmental Accounting Standards Board criteria.

B. BASIS OF PRESENTATION - The accounts of the Authority are organized as an Enterprise Fund. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

Enterprise Funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an Enterprise Fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

C. BASIS OF ACCOUNTING - Cherokee Aviation Authority maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Authority are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present the financial position and results of operations of the Authority in accordance with U.S. generally accepted accounting principles.

D. RESTRICTED FUNDS - Restricted funds are set aside for payment of future capital improvements. The amended agreement with the City of Cherokee and Cherokee County requires 40% of the tax levy to be put in a capital reserve fund. The original agreement required 60%, but this was amended to 40% per a September 14, 2004 agreement for a two year period. As of March 2007, this amendment will be effective for the life of the 28E Agreement. As of June 30, 2013, part of the restricted funds have been used to pay for grant project expenses. The restricted funds were reimbursed when grant revenue was received. During June 30, 2013 and 2012 required deposits were made to the restricted funds accounts.

E. DATE OF MANAGEMENT'S REVIEW - Management has evaluated subsequent events through January 9, 2014, the date which the financial statements were issued.

NOTE 2 - CASH AND INVESTMENTS:

The Authority's deposits in banks at June 30, 2013 and 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Authority is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Authority; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2013 and 2012 the Authority had certificates of deposit.

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012

NOTE 3 - RISK MANAGEMENT:

The Authority is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 679 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Authority's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Authority's contributions to the Pool for the years ended June 30, 2013 and 2012 were \$3,897 and \$4,004, respectively.

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012

NOTE 3 - RISK MANAGEMENT - CONTINUED:

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by the Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2013, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The Authority also carries commercial insurance purchased from other insurers for coverage associated with airport owners and operators general liability in the amount of \$1,500,000, pollution liability on underground tanks in the amount of \$1,000,000, and an employee blanket crime bond in the amount of \$50,000. The Authority assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.



CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012

NOTE 4 - AIRPORT OPERATOR CONTRACT:

The Authority has entered into a contract with a manager for the operation of the airport. Under the contract, the contractor is to operate the airport site in compliance with all applicable laws, rules and regulations. The contractor is to furnish all labor, tools and equipment necessary for operation. For these services, the operator was paid \$31,233 and \$30,900 during the years ended June 30, 2013 and 2012, respectively, plus commissions based on fuel sales of \$12,617 and \$11,331, respectively.

NOTE 5 - RELATED PARTIES:

The clerk and the board chairman are siblings.

The clerk is employed at State Savings Bank. The Authority has bank accounts, certificate of deposits and a loan at State Savings Bank.

Brian Lauck, Airport Director and owner of Lauck Aviation, purchased fuel from the Authority of \$7,012 and \$6,317 for the years ended June 30, 2013 and 2012, respectively.

NOTE 6 - RENT INCOME:

The Authority has a verbal operating lease on 72 acres of farm ground with an unrelated party. The lease agreement is negotiated annually with the annual payment being made in the fall. One stipulation is that the tenant is required to plant low crop. The cost of this land is recorded by the City of Cherokee, since they own the land.

Land rental income resulted in income of \$4,000 and \$4,000, for the years ended June 30, 2013 and 2012, respectively.

NOTE 7 - SHORT-TERM NOTE PAYABLE:

During the year ended June 30, 2012, Cherokee Aviation Authority obtained a loan for \$300,000 from State Savings Bank with an interest rate of 4.0%. It originated April 24, 2012 and was due April 24, 2013. The balance at June 30, 2013 and 2012 was \$-0- and \$300,000, respectively. The terms of the loan required the loan to be repaid from federal grant reimbursements.

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012

NOTE 8 - SUBSEQUENT EVENTS:

The Authority signed two grant agreements for \$200,000 and \$183,946 in July 2013 for the Runway Rehabilitation Project and Snow Removal Equipment Acquisition, respectively. Neither grant had been started prior to June 30, 2013. The maximum reimbursement from the Iowa Department of Transportation and Federal Aviation Administration will be 70% and 90%, respectively of the allowable project costs.

INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AUDITS OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

# BURKHARDT & DAWSON

## Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AUDITS OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

To the Board of Directors of  
Cherokee Aviation Authority

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of Cherokee Aviation Authority as of and for the years ended June 30, 2013 and 2012, and the related notes to financial statements, and have issued our report thereon dated January 9, 2014. Our report expressed an unqualified opinion on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered Cherokee Aviation Authority's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cherokee Aviation Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Cherokee Aviation Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of Cherokee Aviation Authority's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items A, B and C to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as item D to be a significant deficiency.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cherokee Aviation Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Authority's operations for the years ended June 30, 2013 and 2012 are based exclusively on knowledge obtained from procedures performed during our audits of the financial statements of the Authority. Since our audits were based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

#### Cherokee Aviation Authority's Responses to Findings

Cherokee Aviation Authority's written responses to findings identified in our audit are described in the accompanying Schedule of Findings. Cherokee Aviation Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Cherokee Aviation Authority during the course of our audits. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BURKHARDT & DAWSON, CPA's

  
Certified Public Accountants

January 9, 2014

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2013

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

- A. Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One person has primary control over charge accounts, including billing, deposit preparation, posting transactions to accounting records, reconciling payments to receivable records and also grant reimbursement requests and grant contracts recording and reconciling.

Recommendation - We realize segregation of duties is difficult with a limited number of accounting staff. The Authority should designate a member of the Board to provide additional control through review of financial and grant transactions to help ensure accounts receivable charges and payments on account are properly recorded and deposited intact and also to ensure grant reimbursement requests and subsequent receipts are properly recorded and deposited.

Response - The Authority's Board Secretary is designated to review and reconcile bank accounts on a monthly basis. Checks written for accounts payable are signed by an officer and all accounts payable and receivable are approved by the Board on a monthly basis. Activity in bank accounts is reviewed by the Board monthly.

Conclusion - Response accepted.

- B. Financial Reporting - We noted that while management is capable of preparing accurate financial statements that provide information sufficient for the members of the Cherokee Airport Authority to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2013

B. Financial Reporting - Continued:

Recommendation - Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable OCBOA financial statements.

Response - Management will consider obtaining additional knowledge regarding the basis of accounting.

Conclusion - Response accepted.

C. Purchases - A material invoice had been paid twice and a refund was not received until nine months later.

Recommendation - The Authority should only pay from invoices; however, if a statement is received, invoices should be matched to the statement prior to payment to eliminate over-payment of bills.

Response - The bookkeeper will review invoices more closely and match all invoices to statements prior to making payments.

Conclusion - Response accepted.

D. Adjustments - We noted adjustments had been made to the trial balance after we had received the information for audit testing.

Recommendation - All adjustments should be made by the auditor after the auditor has received the trial balance for testing. When the audit is complete, the Authority's Quickbooks file should be locked for editing.

Response - In the future, we will "close" the fiscal year in the Quickbooks software to avoid adjustments being made.

Conclusion - Response accepted.

Other Findings Related to Required Statutory Reporting:

A. Questionable Disbursements - No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

B. Travel Expense - No disbursements of Authority money for travel expenses of spouses of Authority officials or employees were noted.



CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2013

Other Findings Related to Required Statutory Reporting - Continued:

- C. Commission Minutes - No transactions were found that we believe should have been approved in the Authority minutes but were not. However, the minutes, including the schedule of bills allowed, were not published as required by Chapter 28E.6(3) of the Code of Iowa.

Recommendation - The Authority should ensure the minutes, including the schedule of bills allowed, are published timely in the newspaper as required.

Response - The Authority has chosen not to publish its minutes in the newspaper because of the cost. The minutes are published on the City of Cherokee website, a signed copy is available at City Hall and upon request.

Conclusion - Response accepted.

- D. Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Authority's investment policy were noted. The Authority has adopted a depository resolution at June 30, 2013.